



Policy Study No 113

Giving how to encourage charities *more*

Nicholas True



CENTRE FOR POLICY STUDIES



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Foreword

The conduct of any investigation into charitable funding at once brings to the fore that great resource of charitable support in Britain – the volunteer. A legion of individuals press the case for further fiscal reform in this area. This paper could not have been concluded without their help and encouragement. There is no common view in the charitable world about the priorities for change. Each of the proposals in this paper will provoke different responses from different bodies. There is, however, general agreement that personal support is the main present and potential resource of charitable bodies; that the level of this support could be raised by further fiscal stimulus; and that the scale, variety and flexibility of charitable activity is something that any government should wish to encourage.

It would be invidious to name all those charities and individuals who have been of assistance. However, the value of the statistical and professional work of the Charities Aid Foundation will be evident, even if they will not be wholly comfortable with all the conclusions. I would like to thank Philip Virgo of IT Strategy Services who has pressed such a project on the Centre for Policy Studies for some time, and whose help in its writing has been invaluable; as well as the loyal Katie Townsend-Rose for her patience and skill in preparing copy.

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Why Charity?

The annual turnover of the charitable sector has been estimated at some £13 billion. Charities are being registered by the Charity Commission at the rate of one every 30 minutes of the working day. By summer 1989 almost 165,000 charities were registered. These ranged in size from small local foundations to Oxfam with a voluntary income of almost £41 million in 1988, or the National Trust with a total income of over £85 million in 1988 and net assets of more than £200 million. The total number of charitable bodies is believed to be about 275,000. The scale and diversity of the sector is a reflection of the varying interests and concerns of millions of citizens, not only in this generation but in the past.

All political parties pay lip service to the importance of the voluntary sector. There have been those on the Left who have questioned whether the existence of such a sector -- especially in the social sphere -- is not properly a matter of reproach to government. Not long ago a leading 'progressive' in the Church of England confessed his concern that an arrangement that linked a prosperous Home Counties parish to more 'disadvantaged' Christians, might turn out to be the occasion for 'patronising charity'. At the same time Ministers who have sought to promote public support for new hospital schemes, or who have encouraged health or local authorities to find partners in the voluntary sector, have been accused by their Labour counterparts of promoting a 'begging-bowl society'.

Doubts are not confined to the Left. There are those of a rigorously liberal approach to the workings of the market who question whether government should itself offer any incentives to charitable giving. For them the creation of a low-tax economy should be incentive enough. Higher disposable income should lead to higher charitable giving. Inland Revenue Statistics show that the total amount of tax repaid to charities in respect of covenanted gifts rose to some £410 million in 1987-88. In addition tax savings of £229 million were received by charities on charitable gifts from estates which had a liability to Inheritance Tax. This revenue foregone each year by the Treasury excludes a number of other direct tax benefits as well as help and relief from government agencies and local authorities. It has been

argued that it is wrong that others should pay higher taxes in order to finance a distortion in the market; such tax relief may simply pander to the predilections of a minority of the relatively well-off and the financially acute who give to charitable causes on a tax-allowable basis.

Fortunately, these remain minority views. The 'committed' Socialist – if there still remain any Snarks who have not yet turned out to be Boojums – while musing on the 'language of priorities' would do well to reflect on the contribution of the charitable sector to total national effort. When the unpaid efforts of charity volunteers are added to the monetary contributions made to the sector as a whole, it can be estimated that the cost of replacing the work of the voluntary sector would be well in excess of £20 billion – or some 12p or 13p on the basic rate of income tax. Such an approach would be as futile as it is unthinkable. In financial terms alone the State has an enormous interest in sustaining, and, more positively, in collaborating with a thriving voluntary sector.

On the other hand the non-interventionist should not rest on the apparent health of the voluntary sector. British provision, though admirable, lags behind some other countries. This paper will contend that further relatively low cost action by the State could stimulate significant growth in a sector whose 'spontaneity and diversity', in the phrase of the White Paper, *Charities: a Framework for the Future* (Cm 694, May 1989) could never be replicated by the public sector. Above all a Conservative government should nurture a system which reflects the working of millions of free personal choices, far more flexible than one which raised higher taxes out of which grants were given to bodies favoured by Whitehall.

Since 1979 government funding of the voluntary sector has markedly increased. According to figures given in the May 1989 White Paper (Cm 694, para 1.5) direct grant aid from central government departments has roughly doubled, after allowing for inflation, to almost £300 million in 1987-88. When the extensive funding by agencies – particularly in the field of employment and training – and support to housing associations are taken into account the total rises to some £2.4 billion, not including the contribution of local authorities.

Table 1:
Public Sector Support for Voluntary Organisations
 Source: *Charity Trends*

	<i>£million</i>
1987/88	
Government grants to housing associations and societies	1,138
Training agency grants	737
Grants from other QUANGOs	189
Central government grants	293
Health authority grants	33
<hr/>	
Total	2,390
Local Authority grants	651
Value of tax concessions	639
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Total: all public sector support	£3,680

Private support for charities is harder to measure. The Family Expenditure Survey for 1986 suggested that the mean amount given per household was £33, implying a total of charitable giving for the year of only £650 – £800 million. However, FES figures included only donations and subscriptions. For whatever reasons the Survey seems to have much underestimated total charitable giving; the 125 largest fund-raising charities alone took in over £820 million in voluntary income in 1988, almost £660 million of which was accounted for by the top fifty.

The Charities Aid Foundation's *Charity Household Survey* in 1988-9, (*Charity Trends*, 12th Edition (1989), pp.34ff), using a different research method and covering also purchases from charities, implied a total donation of between £3 billion and £4.5 billion. It suggested £83 as the average sum donated per adult per year. The structure of the CAF survey was such that individuals were more likely to be prompted to record all forms of charitable support. However, the disparity and the limited quantity of the data underline the case for further research in this area.

Let us assume for the sake of argument that the average CAF estimate of £3.75 billion is accurate. Even on that basis the

proportion of average gross household income in Britain devoted to charitable giving was barely 1%. In 1988 in the United States individuals gave an estimated \$86.7 billion, excluding bequests and foundation income. (Source: *Giving USA*, 1989). The average household donation (including non-contributing households) in 1987 was \$562. Just to raise British levels of personal giving to those of the US could be worth something in the order of £3-4 billion per annum to the voluntary sector. Despite the notorious difficulties of comparing data across national boundaries, the size of the apparent gap may suggest that there is room for stimulation of private giving in Britain, and that fiscal, social and other incentives offered in the US and other countries should be closely examined.

Trends in personal giving are as hard to assess as its scale. The CAF is now placing the compilation of its Household Survey on a regular basis. Certain material is already available. It is not all encouraging. The rise between 1987 and 1989 seems at best to have been little over 5% in real terms, and at worst to have been static. Some recent research drew attention to the fact that over a longer term the sums raised by charities through fundraising and donations had scarcely risen in real terms between 1975 and 1985. This decade, however, includes a period of economic retrenchment and takes in only the first stages of the post-1981 revival. Lags would in any case be expected between the recovery of a sense of growing prosperity and a disposition to increase charitable giving. While it confirms the case for action to stimulate personal giving, the available information scarcely justifies the ludicrous image which is apparently so seductive in clerical circles of a nation of hard-faced men who have done well out of the peace.

The table illustrates the turbulence faced by the charitable sector between 1975 and 1985. The returns from commercial activity, an area which is at present expanding, were disappointing. The return, too, received on investments in the decade was poor; this can be partly explained by an apparent dependence on fixed interest investments as well as by the stock market reverses under the 1974-79 Labour Government. The rise is steady in grants from statutory bodies, a flow of income which is even higher when the substantial proportion of fees paid by statutory bodies is taken into account. The slump in voluntary

Table 2
Trends in real income; sample of charities 1975-85

£m at 1975 prices	1975	1980	1985	Proportion of income in 1985
Fund raising and donations	683.6	455.3	695.0	15.2%
Fees and charges	821.5	2455.0	2772.0	60.7%
Rents and investments	523.3	453.0	505.2	11.0%
Grants from statutory bodies	175.2	295.0	497.0	10.9%
Commercial activity and others	205.8	69.0	100.6	2.2%
	2409.4	3727.3	4569.8	100.0

(Source: J Posnett, 'Trends in the Income of Registered Charities' *Charity Trends 1986-87*)

giving between 1975 and 1980 and the revival in the 1980s, is evident. Yet again inflation is shown to be the enemy of the good. Not only does it cause uncertainty to the prospective donor, it erodes the value of investments. It also quickly undermines the value of covenants entered into by donors. Government may well need to do more to encourage private giving. But here, as elsewhere, its primary task is to control the inflation that destroys the value of a charitable intent.

What is Charity?

The definition of the term 'charity' is exceptionally broad. As is well known there is no clear definition of charity in English law. The basic statute underlying legal interpretation remains the Elizabethan *Charitable Uses Act 1601*. Clearly not all the charitable uses recognised in the preamble to that Act are applicable today. The repair of causeways, for example, does not feature highly among contemporary charitable causes. The essential interpretation of the 1601 statute for modern purposes was made by Lord Macnaghten in 1891. He set charities into four classes:

- (i) the relief of poverty
- (ii) the advancement of education
- (iii) the advancement of religion
- (iv) 'other purposes beneficial to the community'

The 'relief of poverty' has been held to include help for elderly people and handicapped people, including hostels and special housing. 'Education' embraces any type of research which will be useful to others, the arts and museums, as well as, contentiously, public schools. 'Religion' has been self-explanatory, although in recent years problems have arisen because of the emergence of new cults which are alleged to be inimical to the public good. 'Beneficial to the community' is something of a catchall, covering the alleviation of suffering or danger (fire services or lifeboats), increased efficiency in public services, care for the natural environment and classes of animals, the promotion of health care and concern for the sick (including private hospitals and hospices), and the maintenance of public amenities, including recreation grounds.

The breadth of these purposes has its advantages, particularly as Lord Macnaghten's classifications have never been defined in law. A hugely diverse range of bodies has been able to secure recognition as charitable for legal and fiscal purposes; and they are registered as such under a system operated by the Charity Commission under the 1960 *Charities Act*. In its 1989 White Paper the Government considered the option of legislating for a new definition.

Ministers have invited further opinions on the subject; they would be wise to incline away from any change. The issue is

little more than a red herring. Over the last century an extensive amount of case law has grown up which provides a workable legal framework. A new definition would merely give rise to a new wave of litigation; the Bar Council and the Law Society, not charities, would be the main beneficiaries. The definition would have to be highly complex, if it were not to result in charitable status being extended to bodies which did not carry public acceptance. A tendency to codify and to over-regulate is one of the more pernicious aspects of all governments – even at times a Thatcher one. The present system has worked fairly well. We no more require a written definition of charity in statute law than we require a written constitution. In most cases, it can be left to the good sense of trustees and administrators and, behind them, the judiciary to ensure that proper bounds are not broken, for example in raising money, in the misapplication of funds or in political campaigning. Beyond that, the Government should rely on the commonsense of the people; it is, after all, their money that charities want.

The Government's 1989 White Paper, which followed an outstanding report by Sir Philip Woodfield, proposed a number of useful changes to improve the workings of the registration system. It also aims to provide the Charity Commission with greater powers to deal with abuse. Ultimately, however, the main sanction on fund-raising charities ought not to be further government regulation, but the *informed* choice of those millions of people who support charities. Let government intervention be limited to ensuring that the fullest policy and accounting information is made available. Without private support for a charity's aims and methods, the future of many would be bleak. The potential power of this sanction on performance is, in itself, a further argument for seeking to reduce overall dependence on public as opposed to private sources of funds. Statutory sources have tended in the past to be uncritical, whereas the individual will inevitably think carefully about the use of his money.

Recognition as a charity confers a range of advantages, which go much further than the respectability of the label itself. The central public register established under the 1960 *Charities Act* is not by itself a determinant of whether a body is a charity. Many universities and polytechnics, as well as the Church Commissioners and their dependent bodies, are exempt from

registration. This has assisted the excessive financial secrecy of some of these bodies. While it is not essential that every one of these or the smallest (currently exempt) local charities and charities relating to places of worship should be registered, there is a strong case for copies of their accounts, in common with those of other charities – showing administrative expenses, trust instruments and a statement of strategic policy, a brief report on present activities, any auditors' qualifications and information about endowments – to be made available to the public at cost.

The computerisation of the Charity Commission's Register, belated as it is, will provide the basis for such public scrutiny from 1992. Although the Commission is right to wish to avoid unnecessary administrative burdens on charities by requiring only changed information after the completion of its national survey, it is also right to warn that from 1992 failure by a charity to supply up-to-date information on its performance will be clearly marked in the Register.

The Government's White Paper has sensible suggestions on the availability of financial information. Equally worthy of support is the proposed extension of requirements for the auditing, or professional checking, of accounts. As much transparency as possible – to be achieved with as few administrative costs as possible – must be the aim. Above all, charities cannot expect the indefinite extension of fiscal reliefs without accepting that their use of their income should be open to more effective monitoring by present and potential supporters; many charities are already models in this respect – which is indeed to their advantage. Transparency is all the more important at a time when an increasing proportion of voluntary funds are coming from direct fund-raising. The Government is expected to legislate in 1990 to promote greater accounting openness. Such extra duties would impose no unacceptable burden on charities in return for the substantial fiscal benefits that they receive. Indeed, it might be suggested that the receipt of the further tax and VAT concessions proposed in this paper should be conditional upon registration, and a Register entry free from adverse marking by the Charity Commission. Thereby, additional benefits from public funds will be strictly dependent on acceptance of public accountability.

What profiteth a charity?

Charities, as we have seen, already profit from considerable fiscal concessions. The following are the main benefits open to them in the field of private and commercial giving:

- General exemption from income tax of income used solely for charitable purposes. (Charitable companies have exemptions from corporation tax in a similar way.);
- Ability to recover basic rate income tax on covenanted payments made by donors out of net income;
- Relief for donors from higher rate tax on covenanted payments;
- Tax relief for donors on 'give-as-you-earn' schemes up to £480 per year;
- Ability of companies to deduct the gross value of sums covenanted to charities from total profits;
- The right for companies within certain limits to deduct the value of single gifts to charity from taxable income. (This concession is, deplorably, not available to close companies);
- Exemption of outright gifts to charities and legacies from inheritance tax;
- Exemption for companies from CGT on gains applied for charitable purposes. Exemption for donors from CGT on outright gifts to charity.
- Exemption from stamp duty on deeds of covenant to charities.
- Certain limited reliefs from VAT.
- Rate relief, to be replaced in 1990 by (more limited) community charge relief.

Before asking the Government to consider further concessions it would be churlish not to point out that substantial privileges have been granted in all these areas by the Conservative Government since 1979. Indeed it is instructive to recall just how restrictive the pre-1979 regime was. Charities must hope that this is another area in which a Labour Party aspiring to power would undertake not to 'sweep away all Tory laws.'

- Before 1979 *higher* rate income tax relief was not available on

charitable covenants: relief was introduced, up to a ceiling, in 1980. In 1986 the limit was abolished.

- Before 1979 the minimum period allowed for covenants qualifying for tax relief was seven years, a particularly destructive rule at a time of high inflation. In 1980 the minimum period was reduced to four years.
- Complete exemption from stamp duty for all transfers to charities was introduced in 1982.
- Before 1979 there was a limit of £100,000 on exemption from capital transfer tax for gifts to charities within one year of death. All limits were abolished in 1983.
- Relief for single donations by non-close companies was introduced in 1986.
- New arrangements for payroll giving were introduced in 1986.
- Tax relief for costs of employees seconded to a charity, a major source of help, was granted in 1983.

A number of less important, but still valuable concessions have been made. So government should not be a target of criticism. However, certain major contentious areas remain – namely VAT, lump-sum gifts, and the limitations on covenanting and payroll-giving. Each of these will be examined later.

The responsiveness and the flexibility of the charitable sector, itself a strong case for dismantling obstacles to charitable activity, is shown by the way in which public support for differing charitable objectives has evolved in recent years. Support for international relief agencies as a total proportion of the income of the top 200 charities has grown from less than 11% in 1982-3 to 13.5% in 1987-8; support for environmental causes has risen from less than 5% in 1985-6 to some 7.5% in 1987-88. Charitable choices are as powerful an indicator for politicians as any MORI poll; individuals have responded fast in areas the importance of which government has come to recognise more sluggishly. Other major areas of public support have remained fairly constant. Cancer research took over 12% of support for the top 200 in 1987-88; care for physically handicapped people almost 9%; children's charities almost 8%; concern for blind people over 5%; and hospital and hospice support some 3%. The sectors to show significant proportionate decline over the last five years for which figures are available have been support for Israeli causes, ex-service and benevolent

organisations, and, disappointingly, care for elderly people. However, the relative buoyancy of overall charitable income has been such that these causes, too, have experienced growth in real terms over the period.

Table 3
Largest fund-raising bodies: 1983-88

Source: *Charity Trends*

	£m	Size in Order, voluntary income					
		1983	1984	1985	1986	1987	1988
Oxfam	41.0	4	1	2	2	3	1
National Trust	40.6	1	2	4	4	2	2
RNLI	37.7	5	3	5	3	1	3
Imperial Cancer	32.0	3	5	9	5	4	4
Cancer Research	31.0	2	4	6	6	5	5
Salvation Army	26.1	6	6	7	8	6	6
Barnardos	25.3	7	7	8	7	6	5
Save the Children	24.1	8	8	3	2	8	8
Guide Dogs Blind	19.9	19	13	18	10	9	9
Spastics Society	18.5	14	12	12	11	16	10
RSPCA	16.9	15	20	19	12	12	11
NSPCC	16.7	20	9	10	13	10	12
British Heart Fdn	16.5	21	21	17	18	14	13
Charity Projects	16.3	—	—	—	—	16	14
Christian Aid	16.0	12	14	11	14	13	15
Help the Aged	15.3	10	10	23	19	15	16
Red Cross	13.7	18	23	25	17	18	17
Marie Curie Fdn	13.7	16	17	20	22	25	18
RNIB Blind	13.6	11	11	13	15	11	19
Action Aid	12.9	13	15	15	16	17	20
Cancer Relief	12.1	33	31	32	25	21	21
Tear Fund	11.8	22	22	14	20	19	22
PDSA	11.4	27	24	27	27	27	23
British Legion	10.2	17	18	24	23	23	24
RSPB	10.1	23	25	28	28	26	25

These figures, of course, relate to the largest fund-raising bodies. Overall, the figures are impenetrable, although it is probable that trends in public preferences are similar. There is a danger in arguing only from the performance of the largest charities; they have the skill, the resources, and the mass appeal to attract the largest funds. In considering changes to fiscal reliefs it must be remembered that the interests of the largest charities will not always be identical to those of smaller ones. Each may rely on, or prefer, different instruments. The availability of statistics on the largest charities and their relative financial power concentrates attention on them. As noted above, the top 50

charities took in over £650 million in voluntary income in 1987-88; the next 75 took in just over £160 million; the next 75 some £80 million; and the next 200 only £94 million. The list opposite shows all those charities raising more than £10 million in voluntary income in the latest financial year.

The remarkable consistency of the top fund-raising performers will be noticed in Table 3. Apart from the Band Aid Trust, top in 1985, the Catholic Fund for Overseas Development (now 32), the Church of England Children's Society (now 26), and the Jewish Philanthropic Association (now 28), no body outside the present top 25 has figured among the leading twenty fund-raisers in any of the last six years. Lesson: it is not the biggest charities that most need help. To a great extent, they can fend for themselves.

VAT, the 'impossible dream'

Concessions on VAT were raised as the first priority by most of the major charities which the author consulted. 'VAT imposes an incredible burden', commented one. 'The RNLI has, since the imposition of VAT, lost several million pounds to this source which could have provided up to a dozen lifeboats. However intransigent the Treasury may remain on the subject it is still the biggest problem faced by charities in their dealings with government.' A survey published by Buzzacott and Co in 1988 on charities' attitudes found that 'VAT on general supplies was considered by far the most hostile element to the charities' present activities. This was followed at some distance by VAT on building and PAYE on staff salaries.' Yet, as one charity administrator stated: 'We must face the fact that exemption from VAT is an impossible dream.' Is that gloomy view absolutely inescapable?

Whitehall advice is clear on this point. 'General VAT relief for charities has been carefully and sympathetically considered by government on many occasions, but sadly, Minister, it is contrary to the EC's Sixth VAT Directive.' The warnings go further. The Treasury has observed that administration costs of general relief could be some £110 million. It also points to the fact that general revocation would benefit most the charities that spend most. A final argument is that government should concentrate benefits and reliefs on the gifts which reflect popular support for charities, not on their expenditure. If that is the view, let government make good its words by extending reliefs on personal giving. It is also peculiarly inappropriate that VAT is imposed on donations in kind to charities in a notably harsh form.

It is, of course, true that decisions over VAT are not entirely in British government hands. The Government should also be given credit for making several detailed concessions. These include the provision of some protection against the worst potential impacts on charities' non-business activities of the European Court of Justice's 1988 ruling that certain zero VAT rates were inadmissible in EC law. There remain, however, a number of long-term threats from the evolution of EC tax policy,

familiar from many representations made by charities and charitable groups. Some charities already face irrecoverable VAT burdens of over £1 million a year. VAT approximation, as proposed by the Commission for 1992, could see that burden double, or in some cases treble, for many large charities. The Government may not be able to tackle these problems unilaterally. They should be addressed in the context of Community-wide discussions. In those forthcoming talks Britain's position should be clear and resolute in defence of present zero-rate concessions and of charities' wider interests. There are, however, specific concessions which the British Government could and should consider outside those talks and in the context of the 1990 Budget.

Beyond the detailed requests which are made each year by specialist charities – for example, for relief on radios for bedridden patients or on hospital broadcasting, or for more generous handling of building alterations – there is one area in particular where there is evidence that Britain's tougher VAT regime is driving potential corporate support for charities away from our country. For example, the imposition of £90,000 VAT on a multinational's donation of £600,000 worth of equipment to Edinburgh's Turing Institute led to the loss of the proposed follow-up of a £5 million donation for a new building. The company's educational donation programme was redirected to another country.

In Britain corporate donations of equipment, even when no reciprocal obligation is involved, attract VAT on the cost of manufacture. If there is publicity, or other obligation attaching to the gift, VAT is levied at the penal rate of 15% of the open market value of the gift. The payment of that VAT is pursued with rigour. Germany and Italy by contrast do not apply non-reclaimable VAT to such donations. Even in the case of software for IT equipment, a British university would have to pay VAT on the value of any gift unless it was individually commissioned. In other words, as Michael Marshall MP pointed out in evidence to the 1988 Trade and Industry investigation into IT, 'teaching institutions which might need multiple copies of commercial software packages must pay VAT on each copy, even were they to successfully negotiate sponsorship in the form of gifts from the manufacturer.' That is evident absurdity, which

places British educational institutions at a disadvantage when compared with some of their leading overseas rivals. Germany, for example, not only effectively exempts the gift from VAT, but allows more generous allowances against tax on donations to scientific or cultural institutions. If the Government is absolutely resolute in principle on the issue of levying VAT, then at least cost, rather than open market, values should be applied. However, the Government could with profit examine Commission guidance on VAT. Mme Scrivener has been encouraging on the issue of zero-rating. It now also appears that, although the Commission is of the opinion that the charging of VAT on a donation of equipment is advisable, this view is chiefly based on the need to ensure a record of a taxable economic transaction in order to combat potential fraud. It is not necessary for that transaction to be notionally profitable. There appears to be no reason, were the domestic government to permit it, why within the terms of EC Directives a transaction could not be made for a nominal value of, say, £1 and the VAT liability limited to 15p.

Britain, by concentrating on the issue of zero-rating, is missing an opportunity to reduce the impact of VAT and so help most, if not all, charities. A scheme for the reimbursement of VAT would seem to be permissible within the terms of the Sixth VAT Directive, which provides for government bodies and for other bodies 'governed by public law' listed in Article 13 of the Directive, to be exempt from VAT. Article 13A of the Directive lists a number of types of organisation which may be exempt from the full impact of VAT. These include 'children's or young person's education, school or university education, vocational training or retraining, including the supply of services and of goods closely related thereto, provided by bodies governed by public law having such as their aim, or by other organisations defined by the Member State concerned as having similar objects'. Other bodies involved in welfare services, medicine, certain sports and cultural activities are also listed in Article 13A. Charities devoted to animal welfare, environmental protection or overseas aid are, however, not included. Relief under Article 13A would not therefore be available to *all* Charities. General relief would require new EC legislation. More limited exemption

for the bodies listed in Article 13A could, however, be achieved without change of community law.

The Commission has implied that the reasoning behind Article 13 was to excuse the beneficiaries of non-profit making organisations from having to pay VAT on the services they receive. It was not originally expected that organisations covered would not have to pay VAT on supplies; on the contrary, for accounting purposes and for the control of fraud, it was intended that supplies should fall within the VAT regime. Yet there seems never to have been any intention that it should be illegitimate to reimburse VAT payments. That was seen as a matter for domestic, rather than Commission, policy. It is clear that some Member States are applying the provisions of the VAT Directive in a manner which certainly does not constitute zero-rating, but which has the effect of conferring exemption.

In British law, under Section 20 of the 1983 VAT Act, local authorities can reclaim VAT on purchases made for supplies on which they do not charge VAT. Could not parallel privileges be extended to at least some charities, without infringing Article 13 of the Sixth VAT Directive? The French Government exploits loopholes in that Directive in order to operate a similar reimbursement scheme for VAT paid by defined categories of charitable bodies – named as of ‘a social, educative, cultural or sporting character, in the explanatory leaflet on French VAT (TVA or *taxe sur valeur ajoutée*) which is issued for non-profit making organisations by the TVA administration.

While Article 28 of the Sixth VAT Directive can be strictly interpreted to ensure that there is little prospect of zero-rating being reintroduced in areas where it has been given up, it appears that *reimbursement*, described by the French as ‘*exonération*’, is possible, at least for those bodies listed in Article 13A.1. As well as large educational, cultural, and health charities, some valuable small local bodies, such as village halls, would be clear beneficiaries. Other major EC countries, including West Germany, Italy, and Spain, have similar provisions to those in France. Britain should give urgent consideration to placing bodies that can effectively be exempted through reimbursement on a similar footing.

5

Lump sum donations

In each year under this Government voluntary income has accounted for between 53% and 57% of the income of the top 200 charities. The *lowest* two figures, each some 53%, were recorded in the latest two years – 1986-7 and 1987-8. Partly because of increases in the level of public sector funding through QUANGOs, but partly also because of relatively slow growth in personal giving, the figures compare unfavourably with the late 1970s, despite the growth in sophistication in fund-raising techniques by the major charities.

Table 4
Voluntary income as a percentage of all income
 Top 200 Charities 1976-1988 (Source: CAF)

1976-7	61.1	1982-3	54.4
1977-8	59.1	1983-4	55.0
1978-9	54.6	1984-5	57.1
1979-80	56.9	1985-6	54.7
1980-1	55.2	1986-7	52.6
1981-2	55.6	1987-8	53.3

The table shows that the Government has arrested the decline in voluntary giving which was experienced at the time of economic crisis and high inflation under Labour in the late 1970s. But there are signs that lately the share of voluntary income has again begun to slip. Can new government initiatives reverse that decline? Voluntary giving is still the lifeblood of Britain's best known charities. Yet, as said earlier, the level of giving is low compared with that of the United States and West Germany. The evidence from the former is that simplicity of procedures, generosity of reliefs, and a culture which salutes and promotes philanthropy have led to generous giving. There, total personal giving in 1955 was \$8 billion; in 1988 it was \$104.4 billion, a growth of some three times after allowing for inflation. Giving in 1988 was equal to the value of all corporate dividends. Tax reliefs in themselves may not stimulate an enormous number of new donors; but, judging from the United States, they will

tend to increase the amounts which are donated. More transparent and accessible methods of giving (perhaps married to a concession on lump sum donations) might well promote wider, as well as more generous, giving in Britain.

The proposal that it should be possible to set once-off lump sum gifts to charity against tax has long been resisted by the Treasury. The justification for this stance is always taken from one of Sir Humphrey's well-thumbed 'Notes on Procedure for Mandarins'. Either 'it would be disruptive and threaten the stable flow of income from covenants on which many charities depend'; or 'there is no evidence that it would promote more charitable giving'; or 'administration would be all too difficult or expensive'; or, even, 'there is no evidence of a need to encourage spontaneous giving'. All these arguments are spurious. The Chancellor should have the courage to disregard the 'no-can-doers' and introduce in this year's Budget one of the most significant reforms ever for British charities.

Let us pause to consider the scale of voluntary giving in recent years. The most reliable figures available are for the top 200 charities, published by CAF. They read as follows:

Table 5
Actual income; top 200 charities 1978-88 (£000 unadjusted)

	<i>Covenant</i>	<i>Legacy</i>	<i>Other Gift</i>	<i>Fund Raising</i>	<i>Total</i>
1978-9	9,679	66,163	152,380	n.a	228,222
1979-80	12,003	91,685	189,238	n.a	292,926
1980-1	9,213	107,210	212,636	n.a	329,059
1981-2	23,522	122,767	245,854	n.a	392,143
1982-3	35,211	142,977	267,841	n.a	446,029
1983-4	35,769	173,826	316,926	n.a	526,521
1984-5	34,467	193,978	469,289	n.a	697,734
1985-6	40,437	236,155	444,772	n.a	721,364
1986-7	55,318	273,803	366,279	74,782	770,182
1987-8	65,187	306,130	411,241	119,284	901,842

The first argument of the opponents of change – on the crucial importance of covenants as a source of stability for charities – looks weak on the basis of the above table. Covenants certainly have their value for some bodies, particularly when inflation is low; but the above figures show their relative lack of significance. Covenants accounted for only 7% of the known

voluntary income of the top 400 Charities in 1987-88 (and less of many smaller bodies). That is only 3.6% of the main charities' total income – hardly a indispensable key to stability. There is really no reason why the existence of covenants should be threatened by the introduction of once-off gift concessions.

Many bodies, for example churches, are likely to continue to urge their supporters to covenant. Others will prefer to market once-off gifts. Why in a free economy cannot each charity be permitted to market the mechanism for giving which best suits it? Covenants have their disadvantages, as well as their advantages. It is easier for some of the larger charities with their national coverage, extra resources and advertising power to arrange covenant giving than it is for smaller or local charities. Covenants, except through the complex device of a deposited covenant, do not draw in those who in the way of business or inheritance have a good year. Nor are covenants attractive to many older people on the point of retirement, uncertain about their future level of income.

It is no business of government to favour long-term donation over spontaneous charity, especially when it is failing to control inflation. At such a time, with attendant high interest rates, covenants lock charities into a declining income stream; large once-off gifts provide the opportunity for investment in endowment. From the fund-raiser's point of view the search for once-off annual gifts also provides a clear justification for the regular contact. It is also ironic that a government anxious to restrain consumption has so far refused to consider fiscal measures that would attract windfall surpluses – personal or corporate – into investment or into charitable purposes, rather than into consumer expenditure. Only Denmark shares with Britain favoured treatment of covenant. In Denmark's case the covenant term is an extraordinary ten years. Levels of personal giving are consequently low. Our other major European partners and the United States allow deductibility schemes whose simplicity encourages the donor.

The Treasury's second argument – that deductible gifts would not produce higher charitable income – is questioned by the evidence of US experience cited above. It would be a safe bet that the total value of donations, even if not the numbers of donors, would rise substantially. Let the Treasury look again at

their favoured covenants. Table 5 showed how the value of covenanted income surged in response to fiscal stimuli in 1981-83, after the minimum length of covenants was reduced and higher rate relief allowed in the 1980 Budget; and after the ceiling on higher rate relief was first doubled in 1985, then abolished in 1986. Tax relief on lump-sum gifts would give a similar stimulus.

Opponents of change have also argued that 'there is no evidence that we need to encourage spontaneous giving'. Wrong again. The table below confirms how sluggish has been the growth in charities' overall voluntary income through the 1980s.

Table 6
Percentage change in real total voluntary income
Top 200 charities, 1979 to date (Source: CAF)

1979-80	+ 10%	1984-85	+ 25%
1980-81	- 3%	1985-86	+ 0.4%
1981-82	+ 7%	1986-87	+ 2%
1982-83	+ 8%	1987-88	+ 11%
1983-84	+ 13%		

Note: Figures are skewed by the tremendous success of the new Band Aid appeal and other international relief agencies in raising once-off gifts in 1984 and 1985; even including that windfall of income, underlying growth has been a little over 7% per annum since 1980, but much more strongly based in the first half of the decade.

The proportion of total voluntary income raised through means other than covenant or legacy (generally through individual gifts) was, as can be deduced from Table 5, an average of 58% in 1986-88. Between 1976 and 1981 the average was well over 65% (it reached 67% in the exceptional Band Aid year). So far from there being 'no evidence' for spontaneous giving requiring a stimulus, the role of such giving has declined, at least in proportionate terms, under the Thatcher Government. The success of well-publicised appeals should not obscure this. Again, the case for government encouragement is strong.

The Treasury's last resort is to the well-tried argument of administrative inconvenience; this has not cut any ice in other advanced industrial economies. To cite only a limited set of

examples, the United States, Canada, West Germany, Japan, France and the Netherlands all have personal tax deductibility arrangements; that social democratic Nirvana, Sweden, does not. Which example does Britain wish to follow?

One of the main reasons for the administrative complexity envisaged by the Treasury is its apparent assumption that the processing of all donations would have to be routed via the Revenue. Ministers have said on the record that any scheme would be extremely costly to administer and would 'require a vast increase in Inland Revenue staff'. It is also pointed out, quite legitimately, that only one in five taxpayers out of some 28 million file a tax return each year; the PAYE system plugs the gap. Yet is this an insurmountable obstacle? Is it really necessary to channel donations through a growing army of Revenue men?

It is quite possible to create models that might require some increase in Revenue staff, but certainly not to the prohibitive extent that Treasury Ministers apparently fear. In the United States donations are channelled directly from donor to donee; they are merely reported to the IRS for tax purposes. Until 1987 citizens were able to write in charitable donations on the short tax Form 1040a; since 1987, donations to charities have to be itemised on the long tax Form 1040. As a result half of all previous donors have had to fill in a more complex return in order to benefit from reliefs. This has not deterred personal giving, which has continued to rise; however, it must be remembered that in the States the requirement to file a return already existed. There is no reason why in this country a similar system of itemising charitable donations might not obtain; it need not necessarily lead to the presentation of a full tax return, although a high proportion of those likely to be in a position to make significant one-off donations will already be filing a return. A basic requirement in any case would be a standard form, recognised by the Revenue, whereon a donor might list his individual gifts. Let us, for the sake of argument, call it 'Form-Aid'. (The Government with its extensive PR Budget will have no difficulty in devising a more seductive name).

This form should be submitted with the cheque to the recipient charity which would then receipt it by stamping it with the Registration Number of the charity (registration with the Charity Commission, or exemption approved by it, would be

necessary for participation in once-off gift reliefs and would limit the dangers of fraud which might arise in a generally available scheme). Payment would be made gross. An individual already filing a tax return would present a schedule of receipts with his annual return, while a corporate donor would similarly set the relief due on donations against his corporation tax liability. For those not filing returns, the receipts from charities could be collected and returned to the Revenue on a special short form which would be used annually to adjust the individual's PAYE coding; a lower threshold could be set at the payroll giving ceiling (currently £480 per annum) in order to limit extra costs. This reform would require an increase in Revenue staff, but not on the scale threatened were the Revenue itself to administer a general payment-and-reclaim system.

An alternative option, requiring almost no increase in Revenue staff, would be for the forms to be used by the individual's employer (or by an agency acting for him) to calculate the amount of basic rate relief due and to subtract it directly from his PAYE contribution. However, this route, while avoiding a major expansion of the Revenue, may be unacceptable because of the burdens that it might place on employers. It could be adopted only on a voluntary basis, not imposed by statute. Whatever the decision, there is no need for sums to be paid over to and reclaimed from the Revenue, provided that officials have a means of checking the record if they suspect fraud.

Some voluntary bodies have averred that they would prefer to retain a system whereby tax reclaims are remitted to the charity, rather than allowing remissions or reliefs to the donor. Among other reasons they believe that the net contribution paid might well be the same as that which would be paid over as a gross contribution under the system set out above. A system of gross payments with subsequent personal relief might reduce the potential benefit to charities. This is tantamount to saying that the availability of fiscal relief provides no personal incentive to increase the scale of giving, a most suspect argument. Alternatively, it is a statement that a charity is incapable of convincing potential donors of the reliefs that they will receive in return for donations of a more substantial gross sum. Faced with the potentially high costs of administering the reclaim system, the Government might legitimately argue that it is up

to charities, in return for the benefits they may expect from the once-off relief concession, to promote personal giving at suitable gross levels.

If, however, the route of remission to the charity were after all to be preferred, a similar set of standard forms or receipt books approved by the Revenue would be required. Again the donor would submit a schedule of receipts for his net payments at the end of each tax year. In this case, however, the Revenue would have to check the tax status of every contributor before passing the tax relief to the nominated charity. Equally, an agency, such as the Charities Aid Foundation, could handle the process of dealing with the Revenue on behalf of donors and charities.

It is high time that Britain came into line with other countries in adopting one of these tax relief routes. In order to limit administration and other costs, certain safeguards could be introduced whichever route was chosen:

- (i) Only charities registered with the Charity Commission could receipt Form-Aid.
- (ii) Form-Aid could only be used by individuals if total annual contributions (to all charities) was above a minimum floor. With current payroll giving limits the floor, might be set at £480 for those on PAYE who do not make a return; it should certainly be no higher. The aim should be to reduce it once the real extent of the administrative burden was tested in the first year of operation.
- (iii) Each individual contribution to qualify for Form-Aid relief should be of a minimum size; initially this might be at least £40 net or £50 gross at basic rate. Again the floor should be lowered in subsequent years once the scale of administrative pressure was seen.
- (iv) A ceiling could be set on the overall amount of money donated on which Form-Aid relief could be taken up. Initially, this might be set at 5% of taxable income, the lower of the two levels allowed in West Germany. It should, however, be possible to roll over entitlement to Form-Aid relief into future years, or, once the scheme was running, to take up allowances unused in previous years
- (v) Form-Aid papers could be printed at public expense; however, banks, building societies and other institutions

such as the post office should be permitted to participate in the scheme and to market their own forms (Midland Form-Aid etc.). The banks, just like CAF, could charge for agency services in handling the processing of claims with, and even for, the Revenue. Once-off giving is frequently either a spontaneous emotional event, or a response to the availability of windfall resources; in either case there are obvious attractions in having forms generally available wherever individuals are handling financial transactions. Forms could also be distributed with quarterly bank statements, VISA, Access, or American Express statements and with similar financial communications.

- (vi) If there were serious concern about the effect of Form-Aid on covenant making, tax relief could be limited to the basic rate. This would be in many ways unsatisfactory. It is the higher rate taxpayer who is likely to be in the position to make the substantial once-off donation. It is higher rate relief that is most valuable to charity. An alternative position might be for higher rate relief to be limited to, say, the first £5000 of taxable income in the 40 per cent band in any one year. Relief above that level could only be secured by covenanting, or by purchasing a new 'Charity Bond' – which would be the equivalent of a deposited covenant (a procedure under question in some quarters) and which would release the purchased tax relief over a nominated term. The wisest course for the 1990 Budget might be to limit 'Form-Aid' relief to basic rate (also thereby simplifying administration) in the first years and to consider extension to higher rates in the light of experience.

There would be a deadweight cost to such provisions. This could amount to some £100 million in revenue foregone and transferred directly to the charitable sector. Deadweight considerations did not, however, deter the Government from making the more controversial specific concession of tax relief on private medical insurance. In this case also, it must be remembered that many of the donors may be the same, but the decisions would be fresh each year. The Government has long and rightly argued that it has no monopoly of insight into the preferred ways of directing social resources. As argued at the outset of this paper, the alternative to charitable activity is highly

expensive and unresponsive provision through taxation and public expenditure. Charities are the creation of the very active citizenry that this Government wishes to promote. They are innovative and generally efficient partners to the public sector in social provision. They, more than most other institutions in the land, reflect the individualism and diversity that Tories should want to encourage.

The will to give is there. However, as noted above, the buoyancy of personal giving is not all that it might seem. Furthermore, the success of well-publicised funding appeals, such as Band Aid, the Wishing Well Appeal, or the response to disasters has masked this lack of buoyancy. It has also tended to skew provision towards limited areas of provision as well as, on occasions, to less efficient mechanisms of donation. A wise strategy should aim at two complementary objectives – to make the bridge between the impulse to give and the act of giving easier to cross, and to make the reward more substantial once the decision to cross has been made.

A once-off gift proposal will achieve these aims; it might also encourage some of the appeals which have used questionable fund-raising methods to rethink their marketing strategies. By definition it would bring all charities who sought to profit from the most generous fiscal reliefs open to them under close scrutiny by the Charity Commission, and, through them, by potential donors.

Much has been said of Victorian values; few values were more admired in that period than the impulse to charity. Across the country local communities still gain from the money paid into charities by Victorian benefactors. There is an opportunity in the late twentieth century, in a low-tax growth economy, to create a parallel legacy of endowment for the next century. This may also divert resources from personal consumption into productive investment. No device would more efficiently promote the devotion of substantial sums to charitable ends than generous reliefs on gifts from wealthy individuals and successful entrepreneurs. Companies can now receive tax relief on once-off gifts; so why not individuals? The proposals in this section are designed to that end. However, other damaging disincentives to corporate and entrepreneurial donations remain – and these will be considered in the next section.

6

Removing barriers to corporate and entrepreneurial giving

The regime which we have outlined for promoting more personal giving would ease restrictions in the most important area for the fund-raising charity – the personal sector. However, two types of potential benefactors are checked by Britain's tax rules from providing all the support they might wish – the successful entrepreneur in a close company and the self-employed. These, above all, are the groups which reflect the wealth-creating ideals of the Government. If we are to promote as widely as possible the benefits of the private enterprise economy, they should be permitted to make the most positive social, as well as personal, use of the wealth they are producing. But, as is perhaps natural, the Revenue presently appears to set a much higher store on choking off all possible routes to tax avoidance. Consider these two examples:

- (i) Currently, close (private) companies are unable to receive relief against corporation tax liability on charitable donations.
- (ii) Equally, self-employed people enjoy no opportunity equivalent to the provisions now made for employees to undertake payroll giving. If they wish to contribute to charity in a tax-efficient way they must covenant over four years.

Both these restrictions should be swept away.

The present tight control on close companies could be addressed in the context of the 1990 Budget. Under changes introduced by the Government in 1986, once-off corporate donations by PLCs can, within limits, be set against liability to corporation tax. It is too early to assess the effect of this change, although there is some evidence that it may have stimulated further growth in corporate donations. However, the total value of corporate donation is small when set against that of the personal sector.

Table 7
Corporate contributions; top 400 donors 1984-8

£ million 1987/88 prices. (Source: *Charity Trends* (1989))

	1984-5	1985-6	1986-7	1987-8	Change 1984/5- 86/87
Donations	58.9	71.0	76.8	91.3	+55.0%
Donations as % of pre-tax profits	0.19	0.21	0.19	0.18	-5.3%
Donations per employee	10.25	13.04	13.22	16.54	+61.4%

Total cash support by the top 400 giving companies was obviously only a fraction of the entirety provided by the corporate sector, particularly as an increasing number of companies are providing assistance in kind rather than in cash. The secondment of employees, for example, has been stimulated by tax reliefs introduced in 1983 and 1984. Voluntary and other non-cash support raise substantially the value of corporate support overall. To take but two examples: total charitable support by the National Westminster Bank in 1987-88 was estimated at over £11.3 million; direct cash donations amounted to only £2.1 million. Total support by Shell was assessed as £4.8 million; actual cash donation at just £1.5 million.

Such support is very welcome; so too have been government initiatives to encourage it, although the administration is still very complex. One estimate, for example, is that administrative costs outweigh tax benefits on any corporate donations programme of under £50,000 per annum. Action is also required, as argued above, to relax the punishing impact of VAT in Britain on corporate donation.

Help from large and medium-sized companies is greatly valued. However, recent research also pointed to the major importance of support from small companies, notably at local level. Susan Saxon-Herrod of the Charities Aid Foundation estimated (*Charity Trends*, 1988, pp. 50ff) that the value of such small company support could be between £500 million and £1 billion annually at current prices. The depressing side of this picture was that only 11% of firms surveyed were giving in a tax efficient way; there was also wide ignorance of the tax benefits available to such companies and their employees.

Government, accountants and charities, please note.

Yet, one category of small, and sometimes not so small, company is excluded from corporation tax relief – the close company. Whereas some of our competitor nations specifically set out to encourage the generosity of the successful entrepreneur, Britain's tax rules discriminate against him. In the United States it has been found that the philanthropic intent of successful businessmen is one of the most flourishing sources of charitable revenue. Tax reliefs reflect the US Government's belief in business success and their desire to use individuals as partners in social provision. It should go without saying that one of the most likely set of circumstances in which an individual may feel able to make a charitable donation is when he has enjoyed success in business. Indeed, in a recent appeal launched on behalf of a British university body, half the alumni initially approached as potential donors were found to be associated with close companies; they were thus debarred from taking advantage of corporate reliefs to provide support. British Ministers are proud of having created a climate for entrepreneurs; British tax law does not recognise that these entrepreneurs may also wish to be benefactors.

The Federal Government in West Germany has adopted procedures for corporate donation which may provide a model for a reforming Chancellor. Not only is relief given up to 5% of pre-tax profits for corporate charitable donations, but relief of up to 10% is allowed for company donations to scientific and cultural bodies. What is more, Germany's rules promote easy donation by entrepreneurs in private companies; donations of up to 2% of company turnover attract tax relief.

Britain should abolish distinctions in this area between public and private companies. All companies ideally should be permitted relief from corporation tax at up to 10% of pre-tax profits or 2% of turnover, whichever is higher. Such relief should be available on covenanted gifts or once-off gifts on the same basis. If it were felt that these concessions should be of the same order as those for personal lump-sum gifts, then the ceiling for relief could be set initially at 5%, with the preferable increase to 10% being reviewed later.

Procedures would be similar to those proposed for the personal sector. Reliefs could be received only on donations to

a registered charity, or an approved body such as a university institute. The company would receive a notice of receipt for a donation from the charity. On the evidence of that, presented at year-end, it would be permitted to write in the relief due against overall corporation tax liability. From those companies with financial years running from January to December this should produce a useful income to charity before Christmas, when companies would be able to form a view of their likely results for the year and of what scale of donations they could afford.

The second major area of discrimination affecting smaller businessmen is the lack of any payroll giving facilities for the growing numbers of self-employed. Payroll giving was launched in the 1986 Budget. Despite active marketing and the increase of annual limits on relief in each successive Budget the scheme is still making only limited headway. The annualised value of contributions at the end of the 1988-89 tax year was £6.5 million, a drop in the ocean of charitable support. One difficulty has been the complexity of marketing the scheme, despite its energetic promotion by CAF and other agencies. The creation, at government behest, of a Payroll Giving Association has provided a stimulus in 1989-90, but progress is still slow.

Payroll giving, as presently constituted, is potentially more advantageous to many of the large charities than to some of the smaller ones who sometimes lack the resources or skills to advocate it. They also find that their natural targets, small local businesses and self-employed people, seem not to fit clearly in the scheme. In most rural areas or small towns there are no large employers, except for the local authority, the Health Service, or perhaps British Coal. The search for firms willing to adopt payroll schemes does not necessarily lead to direct personal communication between the charity and the potential donors. For smaller charities it will have a high marginal cost. This is a further argument for the extension of lump-sum relief facilities to close companies and to individuals.

The Treasury argue that, since PAYE does not cover the self-employed, the administrative costs of an extension of payroll-giving privileges would be high. Where is the truth in this? All self-employed people are by definition assessed for tax. The structure of self-employed delivery of tax may make it

difficult to replicate payroll-giving, although it would be perfectly possible for them to pay over a regular sum to an agency such as the Charities Aid Foundation which would handle and certify the contributions. Totals could then be returned at year-end. A close parallel to payroll of this kind should be considered; it should certainly not be the only route for this group.

The income of the self-employed can vary substantially year on year. They may be wary of covenanting for four years ahead. They are also assessed for tax on the basis of the preceding year's income. In an exceptionally good year, which was not likely to be repeated, they would have a strong incentive to make a contribution to charity which could be set against a potential tax overpayment for the following year. If therefore the upper limit of payroll giving for most individuals is set as the floor for an individual lump-sum relief or 'Form-Aid' scheme, self-employed people should be permitted to set donations *below* that total against tax. As an alternative to the Give-as-You-Earn model, they should be permitted to secure forms and receipts from their chosen charity in the usual way, subject only to a limit on the minimum individual donation. If lump-sum relief were granted overall, it would meet a number of self-employed concerns.

The limit on payroll giving is itself a matter of some controversy. Introduced in 1986 at the absurdly cautious level of no more than £100 a year, it has since edged up. It is now £480. The CAF estimated in 1989 that one in five of new contributors were donating at the ceiling. *Prima facie* that is cause to raise the ceiling again; after all, the arguments against such a move cannot be administrative. The suspicion is that here too the Revenue is returning to its old habit of resisting any measure, however valuable, which may reduce overall tax-take. The current payroll giving limit is a tiny fraction even of average earnings. A ceiling of 5% of gross income would not be out of place as a target. However, action to raise the limit should be complemented by the introduction of a once-off gift scheme. Once more flexibility should be the aim, with each charity or agency being able to market a model best suited to its circumstances. One argument will *not* be acceptable from the Chancellor on Budget Day – that anyone wishing to donate above the £480 limit can resort to covenant.

Creating a 'giving culture'

It is frequently said that Britain does not enjoy the culture of philanthropy apparent in the United States. That may be so, although the British public have been marked in their generosity on many occasions. The breadth of our voluntary organisations is widely seen as a major national asset overseas. It is, however, clearly the case that a welfare mentality in Britain has resulted in many areas of social provision being viewed as the proper preserve of the public sector. These attitudes are to some degree breaking down. Yet we have not succeeded in creating circumstances in which the impulse to give can easily be translated into actual giving. Our fiscal procedures are too complex. The Government has been overcautious in treating charities as partners for fear that a climate of dependency may be created, or, worse, that political damage may ensue if charities were seen to be viewed by Whitehall as substitute providers, as government contracted its areas of responsibility. Here, too, attitudes are changing; the positive pronouncements of present Home Office ministers, in particular, are greatly welcome. There is nothing to be ashamed of in a relationship between government and charity, or in a growing role for charitable bodies in the nation overall. The terms of that relationship and the role of charity do, however, need to be properly defined and understood.

The Government's *Scrutiny of Government Grants* to charities is soon to be published. It would be surprising if it did not show that much in the relationship has been unsatisfactory. Many bodies, at both local and national level, have come to rely on some element of government funding -- the terms of which, however, have too often been unclear. The provision of funds has too often been late or uncertain. Checks on the use of funds have too often been ineffective. Sometimes resources have been spread too thin. One Department, for example, (the Department of Health), in its main scheme of charitable support, the so-called Section 64 general scheme, funded some 235 separate organisations in 1987-88. Total funding spread across these bodies was just £14.4 million. The scale of support was frequently small, as Table 8 shows.

Table 8
Section 64 general scheme grants by size, 1987-88
 Source: *Department of Health*

<i>Number of grants</i>		<i>Total sum: £000</i>
£7500 or less	54	221.738
£7501-£15000	46	527.554
£15001-£30000	43	974.323
£30001-£50000	35	1,377.382
£50001-£100000	22	1,778.413
Over £100000	35	9,565.984

As the table shows, over 60% of the management decisions were concerned with the distribution of less than an eighth of the money paid out; over 42% of the assessments with just 5% of the money. What is more the total distributed in the end amounted to some 97% of the sums applied for by sponsor branches of the Department. At the same time the Department is administering 16 other funding schemes for voluntary organisations in addition to Section 64 general!

The case for an overhaul of the many funding arrangements in this and other sponsoring departments is strong. At the local level these problems are replicated; cases are well-attested of charities applying to different departments of the same Council for grants, and of the Members assessing those applications not even knowing that funding was also being considered by other committees. There are obvious dangers in formalising the structure of relationships between government and local government and charities in the delivery of funds and services. There must always be careful scrutiny of the use of public money and scope for challenge from new charities. However, so long as the principle of core funding is accepted, procedures should be established so that charities have a consistent and clearly defined point of contact, that they know what services government expects from them year on year, and that the pattern of grant aid is simplified. Too much intellectual energy and official time is presently dissipated on playing hide and seek for money amidst a thicket of government and local government schemes.

Clear support from government is also expected by many in the charitable sector for promoting charitable giving. This is

primarily the responsibility of the major charities. However, government may secure at least two benefits by intervening more positively in this area. First, the skill and size of the large charities inevitably tends to attract more funding to what have been called the 'supercharities' which, as we have seen, are the semi-permanent members of the top 20. In 1987-88 the top 10 charities took some 30% of all the voluntary income of the 400 leading fund-raising charities; the top 25 took over 50%. At the time of major public concern over the African famines the proportions were even higher. It is natural that the public will wish to support those causes for which they feel most deeply and support those bodies best-known in the field. But many thousands of other worthy charities struggle for room in the sun; the Government could encourage the diversity and the innovation that results from the multiplicity of charitable bodies by assisting their efforts to raise resources. The CAF and other bodies do good work in promoting the principle of charitable giving. However, government and local government could help the sector as a whole by devoting more of its promotional budget to arguing the case for giving. Let us consider two areas as random examples; one, legacy, is already a prime source of charitable funding, while the other, the community trust, is a more recent arrival.

Charity after death

One of the main potential sources for personal giving has always been the legacy. A charitable legacy presupposes a conscious life-time decision. Many more people could be persuaded to make that choice; government could assume a more positive role in encouraging them to do so.

Many major charities are dependent on legacies for a large proportion of their income. Of the 400 major charities covered in the CAF's *Charity Trends* in 1987, 19 received over half of all their income from legacies. These included five of the most important disease-related charities – Imperial Cancer Research Fund, Cancer Research, Arthritis and Rheumatism Council, the National Kidney Research Fund, and the Parkinson's Disease Society. They also included the Royal National Lifeboat Institution and two charities assisting the blind. In view of the animal-loving propensities of the British it is no surprise that

nine of the major charities most dependent on legacies were dedicated to animals, with particular enthusiasm being displayed for dogs, cats, horses and donkeys. A further 53 charities, making in all almost a fifth of all major charities, depended for over half of all their voluntary income from legacies.

The following table shows the purposes of these charities:

Table 9
Charities receiving majority of all
income/all voluntary income by legacy

<i>Purpose of Charity</i>	<i>1/2 all income</i>	<i>1/2 voluntary income</i>	<i>Total</i>
Animals	9	7	16
Benevolent societies	—	14	14
Blind people	2	5	7
Cancer	2	3	5
Disease-related	3	2	5
Care of elderly	—	4	4
Hospices	—	4	4
Hospitals/Research	—	3	3
Deaf people	—	2	2
Children	—	2	2
Poverty relief	—	2	2
Other	3	5	8

Source: *CAF Charity Trends 11th Edition (1988)*

The table shows a clear bias towards charities dealing with animals, the problems of aging, disability and death-dealing disease. Other major claimants on charitable instinct, such as care for children and the third world are less in evidence. There is a lesson, therefore, for those doing less well: charities in these categories should promote their causes, concentrating on the younger age groups, whose concerns may not be related so closely to age. A number of such charities are now beginning to advertise through the press the advantages of will-making.

In 1987/8 the top 200 charities between them received over £306 million from legacies, or 34% of their voluntary income. This compares favourably with the sum of £143 million (32%) bequeathed five years earlier. The estimated total income of all charities from this source is over £500 million a year. Nonetheless the comparable figure in the United States for 1988 was \$6790

million, a distinction which cannot be explained solely by the difference in size and wealth of the two nations. Each year in the United Kingdom there are roughly 660,000 deaths. Yet during 1987 only 227,393 estates were proved in England and Wales. Too many people are continuing to die intestate, a problem with wider social implications as property ownership penetrates ever more deeply throughout the country. Over a third of net personal wealth is held in property. It has been estimated (Morgan Grenfell *Economic Review*, No 45 (1987)) that cash flows relating to the transfer of property between generations already account for some 3% of household disposable income. At the 1989 average value of a property of over £62,000, the annual value of such flows could be £8.4 bn. If only a tiny proportion of this was willed to charity it would be of enormous value. Yet of 1000 people interviewed in a CAF sample survey in 1987, only 30% had made a will. Only 7% of those (3% of all respondents) had left money to charity. So lesson two for charities: promote more will-making, where possible working with the professions. Government, too, could play an important part in promoting a practice which is both prudent and efficient.

Encouraging more people to leave money for charity suggests more publicity and more encouragement to will-making earlier in life. Figures for 1986 showed 8.7% of estates proved having some charitable interest; for 1987 the figure was 8.95%. Research by Pinpoint Analysis showed a proportion rising to 9.5% in the course of 1988. That is still a small proportion. The majority of deaths remain intestate. Pinpoint's evidence disproves the contention that the rich turn their backs on charity. When estates are divided by value the table overleaf emerges:

The number of specific bequests to charity has not grown, although their value has increased. The distribution of legacies to charities reflects (rather more closely than provision from income) regional variations in wealth. Pinpoint's 1988 research showed that over 47% of English wills with a charitable intent came from London and the South-East, including East Anglia.

Two further phenomena deserve notice. First, charitable wills are, on average, made within about 4 years of death, roughly half the average age of non-charitable wills. Second, more than twice as many charitable wills were made by women

Table 10
Proportion of wills proved in England that are charitable:
by estate value (1988 Q1-Q3)

Up to £40,000	6.6%
£40,000-£90,000	1.1%
£90,000-£150,000	6.2%
£150,000-£250,000	22.9%
£250,000-£500,000	28.0%
£500,000-£1,000,000	28.1%
£1million-£5million	37.1%
Above £5 million	16.6%

(Source: *Pinpoint Analysis*)

as by men. Much more should be done by financial advisers and by solicitors to draw attention to the possibility of a legacy to charity; it is disappointing, for example, that in a recent campaign to promote executor services a major clearing bank failed to refer to charitable giving as a possible motivation for will-making. Perhaps even the Revenue might consider sending out with the tax return form, information promoting the advantage of leaving a will!

Finally, the low proportion of estates between £40,000 and £90,000 (where the family home is generally the main resource) with a charitable content, suggests that more imaginative forms of partnership between financial institutions and charities might be helpful, in devising ways of liberating resources for charitable use. Several institutions are already marketing (not always advantageous) schemes for income generation financed against the eventual estate value. Estates at this level are below the threshold for inheritance tax; so at present there is no direct financial incentive to bequeath to charity. The increasing proportion of estates showing a charitable intent through rising wealth bands does suggest that in this area the provision by government of inheritance tax reliefs has had a positive value. Below the Inheritance Tax threshold we need to explore specific new ways of promoting charitable bequests.

Local giving – the Community Trust

The Community Trust is another way to involve public policy in the cause of charity. One of the striking differences between Britain and the US is our own apparent reluctance to give into endowment, as opposed to giving for immediate charitable expenditure. Yet 100 years ago wealthy British benefactors created a network of local charitable endowments – to support almshouses, fuel charities, local poverty relief and so on. The intention was to respond to perceived need in a particular locality. In the US this has remained prominent in the charitable scene – American community foundations have at present assets amounting to over \$5 billion. In Britain the concept has withered. Some British bodies, it is true, have benefited from the land and other property with which they were endowed in unexpected ways. One West London charity, for example, found itself, despite costly legal challenge by the local Democrat Council, in receipt of a multi-million pound windfall when a supermarket was proposed on land in its ownership. In general, however, the picture is bleak.

The present renaissance of local pride offers scope to build new bodies capable of serving the interests of a local community. That is the principle behind the idea of the community trust, which is being promoted especially by the Charities Aid Foundation.

Community Trusts are intended to provide a vehicle which can unite voluntary, local authority, corporate, and, conceivably, central funding in the service of specifically local ends. Their main aim is, however, to unlock new potential sources of personal and business funding by providing new, specifically local, incentives. Some charities have reacted cautiously to the emergence of trusts as potential rivals for funds. But it seems unlikely that they will divert significant resources from established charities. They will appeal to different instincts – to local pride as much as to charitable concern. And it may well be that Community Trusts will provide a point of focus and financial support for worthwhile local charities which might

otherwise find it hard to find time or resources for fund-raising.

So far some 60 Community Trusts have been formed or are under development. The Berkshire trust raised some £140,000 without grant-aid in the course of 1988-89. Others have enjoyed equal or greater success. Ideally, a substantial proportion of trust income would be put into endowment for the long-term benefit of the relevant areas. Here, too, some public investment in publicity, this time through local authorities, would help greatly to create a climate for personal and corporate giving in the long-term interests of the nation as a whole.

Summary

Personal and corporate giving in Britain lags behind several of our major overseas competitors.

Individual choice, reflected in a patchwork of charitable support, is preferable to social choice dictated from Whitehall.

Despite major advances in the course of the 1980s tax reliefs for personal and corporate giving compare unfavourably with most of our EC partners, the US, Japan and Switzerland. British procedures tend to be convoluted; controls restrictive.

Covenants should continue. However, procedures should be introduced to permit once-off gifts to be set against tax, initially up to 5%, successively up to 10%, for both personal donations and corporate gifts. Such privileges should be extended to close companies, as well as public ones.

Entrepreneurs should be encouraged to donate by permitting private companies to set donations to registered or approved charities against tax of up to 2% of turnover.

It should be possible to roll forward donations in order to benefit from reliefs up to the ceilings in future years.

Limits on payroll giving should ideally be abolished; as a minimum step giving of up to 5% of gross income should be allowed.

Self-employed should be permitted to contract into payroll giving through an agency; all personal gifts made by self-employed which are receipted by a registered charity should be set against tax.

Rules on the imposition of VAT on corporate gifts in kind should be relaxed; a reimbursement scheme should be introduced for charities qualifying under Article 13A of the Sixth VAT directive.

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